



Director of
Central
Intelligence

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OCPAS/CIG

CY# 273

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National Intelligence Daily

Saturday
11 December 1982

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CPAS NID 82-288JX

11 December 1982

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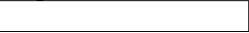


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USSR - WESTERN EUROPE: Turbines for Export Pipeline

The Soviets probably will continue to encounter delays in accumulating turbines for the natural gas pipeline to Western Europe. [redacted]

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The US Ambassador, on a recent tour of one of the plants in Leningrad that produces 25-megawatt turbines for the pipeline, noted a much lower level of production activity than reported in the Soviet press. The plant's director acknowledged a shortage of skilled workers is a major constraint on production but did not mention any technical problems. [redacted]

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A source of the US Embassy in Bonn reported late last month that, despite the lifting of the sanctions, it probably would be some time before additional US-made rotors are shipped to Western Europe to complete turbines destined for the USSR. The US manufacturer now is said to be demanding a higher price for these rotors. [redacted]

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The source speculates the Soviets would not accept any cost increases by West European firms. The British firm John Brown, however, reportedly has obtained some concessions from the Soviets regarding the price of its contract. [redacted]

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Comment: Moscow's problems in accumulating turbines will not affect initial deliveries of gas to Western Europe, scheduled for late 1984. The Soviets will have obtained about 22 Western turbines with US rotors shipped before the embargo. They probably would agree to pay somewhat higher prices for additional Western turbines. [redacted]

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The Soviets will continue efforts to produce their own turbines. Longstanding problems with quality control and with manpower shortages, however, will aggravate any delays already caused by the embargo. [redacted]

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JAPAN-US: Concern About Relations

Prime Minister Nakasone has directed various government and party officials to develop proposals designed to ease strained relations with the US. [redacted]

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Nakasone's efforts are aimed at his trip to Washington in mid-January. On Tuesday he asked his cabinet to draw up measures to open Japan's markets further. A press report states the new measures will feature tariff cuts on some farm products and expansion of import quotas on others. [redacted]

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The Prime Minister also assigned a task force of Liberal Democratic Party members to identify ways to ease trade friction. According to the press, Nakasone last week told the Ministers of Trade and Foreign Affairs and the head of the Defense Agency to develop a unified government position on sharing defense technology with the US before his trip. [redacted]

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In the meantime, a senior Foreign Ministry official will visit Washington next week to sound out US officials on the new trade measures. [redacted]

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Comment: Japanese leaders usually bring a "gift" to Washington in the form of concessions on some contentious issue. Longtime supporters of farm interests are key members of Nakasone's administration and may be able to persuade farm groups to temper their opposition to lower import barriers. Nakasone's view of Japan's defense role also is more compatible with Washington's, suggesting some agreement on sharing technology is possible. [redacted]

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Although Nakasone has emphasized Japan has to resolve outstanding problems with the US, he still operates under the same economic and political constraints as his predecessor. The Finance Ministry will put pressure on Nakasone to limit the defense budget, and recent opinion polls show the public opposes increased defense spending. Farm interest groups have already met with the Prime Minister to warn him of their opposition to additional measures. [redacted]

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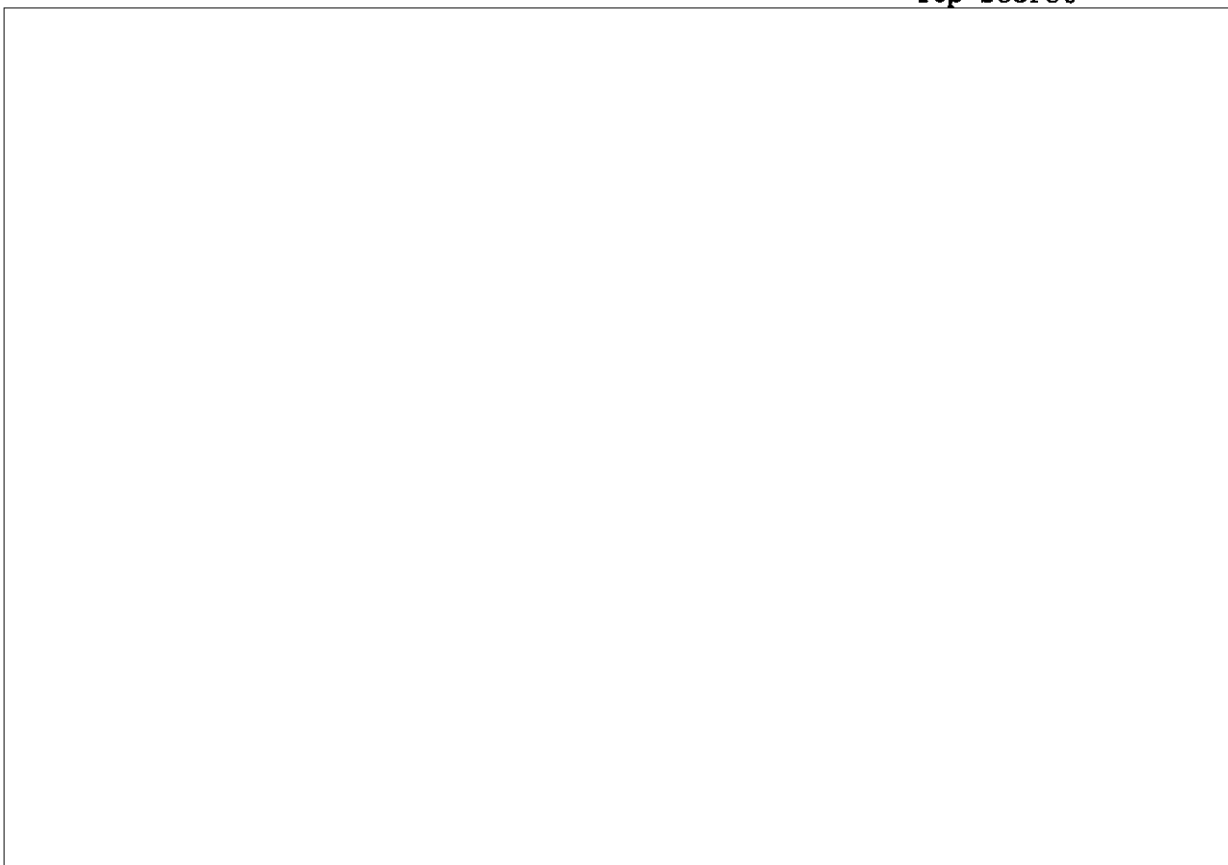
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LEBANON-US: Foreign Minister's Visit

Foreign Minister Salim, who visits Washington next week, will be looking for a reaffirmation of US backing in pressing for the withdrawal of foreign forces. His visit is aimed at exploring alternatives toward breaking the current deadlock over procedural arrangements for Lebanese-Israeli negotiations.

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Comment: Salim's visit is largely a symbolic move to keep up the momentum on efforts to solve Lebanon's problems. President Jumayyil's government is upset by Israel's attempts to delay the beginning of withdrawal negotiations and believes only US pressure will secure concessions from Tel Aviv. Without such concessions, the Lebanese believe they cannot persuade Syria or the PLO to begin withdrawal talks.

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MEXICO: Meeting With Opposition Parties

President de la Madrid this week held an unprecedented meeting with leaders of all registered opposition parties to develop broad support for his austerity program and to remove uncertainties concerning the change in government. Rightist parties generally supported the austerity policies, while leftist groups protested that the measures favored the wealthy. De la Madrid plans more such meetings to keep lines of communication open.

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Comment: The meeting is similar to recent discussions with military leaders and businessmen and is primarily aimed at establishing de la Madrid's political dominance. The President so far has given no indication he intends to expand the role opposition parties gained in the national legislature under former President Lopez Portillo's political reforms. Opposition parties, however, are likely to exploit de la Madrid's need for their support.

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⑧ BANGLADESH: Danger Signs for Ershad

Nine months after taking over in a coup, Chief Martial Law Administrator Ershad is encountering increasing opposition. [REDACTED]

[REDACTED] Since November, party leaders and student demonstrators have been emboldened to defy a ban on political activity. Economic stagnation and a mediocre rice harvest have undermined public support for the regime, and disaffected civil servants are impeding Ershad's reform program. [REDACTED]

1/2 Comment: Discontent with Ershad in the Army is not yet widespread, but the retention of a strong critic in a significant command position could encourage more opposition in the uniformed services. Criticism is likely to grow, moreover, if Ershad is unable to secure better cooperation from the civil service, maintain public order, or make some progress toward alleviating economic problems. [REDACTED]

⑨ CHINA: People's Congress Adjourns

The 15-day National People's Congress ended on schedule yesterday after adopting resolutions to ratify a new national constitution, the five-year plan for 1981-85, and the national budget for 1983. Chinese media depicted the session as uniformly harmonious and thus far have abstained from the past practice of citing delegates' views that diverge from national policy. [REDACTED]

1 Comment: Although the documents ratified at the meeting further institutionalize policies promoted by Deng Xiaoping and his allies, the session was marked by apparent concessions to interests not wholly in step with the reform leadership. Both the constitution and the economic plan are compromise documents. Constitutional changes worked out since April, when a draft document was circulated, include a diminution of the formal powers of the newly established state president. [REDACTED]

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(10) WEST GERMANY - TURKEY: OECD Aid Approved

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The long-delayed West German OECD aid pledge to Turkey has been approved by the necessary committees in the Bundestag. The decision came after consideration of Foreign Minister Genscher's required report on the human rights situation in Turkey, following his brief trip to Ankara last month. In addition to the aid package of approximately \$170 million for project and project-related assistance and benefits for Turkish workers returning to Turkey, the committees approved \$53.7 million in NATO military assistance to Turkey.

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Comment: The aid vote succeeded despite the Social Democrats' continuing opposition to providing financial assistance to Turkey because of alleged undemocratic behavior and human rights violations. There are no further obstacles to full West German participation in the Turkish aid consortium meeting that was rescheduled for 20 December to accommodate Bonn. The action in the Bundestag also clears the way for Japan to announce its own aid pledge. Although Tokyo's contribution probably will be substantial, Japan is unlikely to exceed its pledge of last year.

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Special Analysis

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IRAN-IRAQ: Prospects for Ending the War

3 Baghdad's search for a face-saving end to the war continues to be frustrated by Tehran's apparent determination to maintain military pressure until President Saddam Hussein falls from power. Iraq forfeited the strategic initiative early in the war and, with it, the ability to control the scope, direction, and duration of the conflict. Iraq's unwillingness to change its ineffective military strategy, its inability to initiate a serious mediation effort, and its increasing financial problems will combine to put even greater pressure on Baghdad through the winter. The long-range advantage thus rests with Iran. It is better able to bear the economic pressures and manpower losses. [redacted]

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3 Saddam's overthrow remains the primary aim of Iran's clerical regime. Secondary objectives include obtaining sizable reparations, condemning Iraq as the aggressor, repatriating Iraqi exiles, and forcing a total Iraqi withdrawal from disputed border areas. To some extent, the war has become an end in itself for Iran because it unifies the country and provides a scapegoat for economic problems. [redacted]

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3 Iran is using its superior manpower resources to maintain military pressure all along the front. To continue this strategy, Ayatollah Khomeini recently issued a religious edict calling on all able-bodied men to register for active service and to respond immediately if called by the military authorities. [redacted]

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3 Assembly Speaker Rafsanjani last month boasted that some 400,000 volunteers have served at the front in the past year. This suggests that as many as 200,000 volunteers may be at the front at any given time. A force of this size, if regularly augmented by volunteers, could maintain or even expand the scope of offensive operations against the Iraqis during the next several months. [redacted]

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3 Under total mobilization, Iran would have enough manpower to attempt a full-scale assault along several fronts. On the other hand, it almost certainly cannot provide adequate command and control or logistic support to such a force. [redacted]

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3 Iran's next offensive, which could begin this month, probably will be directed against Iraqi forces in Iran west of Dezful. It is likely to involve the equivalent of three regular divisions supplemented by irregulars. If the Iraqis are driven out, the Iranians probably would then try to occupy additional Iraqi territory and threaten the key Baghdad - Al Amarah highway and the logistics center at Al Amarah. [redacted]

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3 Whatever the results, Iran is likely to continue its attacks--when weather permits--against remaining Iraqi enclaves in Iran. By retaining the initiative, Iran can choose the time and location of each attack, keep the Iraqis off balance, and stretch Iraqi forces along the border. [redacted]

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Baghdad's View of the War

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3 Saddam is willing to make almost any concession that would end the war without a loss of face. Baghdad believes its search for a peaceful solution has been frustrated by continued foreign purchases of discounted Iranian oil and by sales of military equipment to Iran. [redacted]

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3 The Iraqis apparently believe their best--and perhaps only--chance of success is to hold the Iranians at the border and make them pay a heavy price in lives and equipment. Baghdad so far has been unwilling to launch even a probing attack across the border to disrupt Iranian plans. [redacted]

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3 To exert economic pressure, Iraq will continue to use its advantage in airpower to carry out periodic attacks on merchant ships and Iran's oil terminal on Khark Island. Unless driven to the point of complete desperation, however, Iraq probably will continue to resist the only military step likely to force a major change in the course of the conflict--a sustained, full-scale air assault on Iranian oil facilities and oil tankers in the Persian Gulf. [redacted]

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Costs of the Conflict

3 Iran's economy has suffered less than Iraq's, despite destruction of the port of Khorramshahr and much of the refinery at Abadan early in the war. Tehran has since managed to divert shipping and refining operations to other facilities. [redacted]

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3 As a result of price discounts, Tehran is selling three times more oil than the level at the time of Iraq's invasion. Since the end of 1981, Iran's liquid foreign exchange assets have risen from about \$3 billion to over \$6 billion. [redacted]

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3 Iraq has sustained less damage to its cities and economic facilities than Iran, but its oil revenues have dropped from about \$25 billion in 1980 to a projected \$9 billion in 1982. This drop, and a reduced flow of financial aid from the Persian Gulf states since April, have forced Saddam to suspend his extensive development program. [redacted]

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3 Although Baghdad so far has insulated the population from serious hardships by drawing heavily on foreign exchange reserves, it will not be able to do so much longer. Barring receipt of new aid, Iraq will be nearly bankrupt by the end of January, and major austerity moves will be necessary in 1983. As a result, public support for the war and the regime seem certain to drop. [redacted]

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Outlook

3 Iran's continued preparations for mobilization suggest a willingness to maintain the military pressure indefinitely. Neither side, however, can end the war through a decisive battlefield victory. [redacted]

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3 Unless Saddam falls or Iran changes its military or political strategy, the war of attrition, punctuated by occasional Iranian offensives, will continue. During the winter months, fighting is likely to decrease. [redacted]

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3 At this stage, neither army appears in danger of collapse. If Iraqi morale holds up, spring should find the frontlines still near the border. Iraq, however, probably will be in an overall weakened condition. [redacted]
[redacted]

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Prime Minister Balsemao

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Special Analysis

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PORTUGAL: Balsemao's Shaky Hold on Power

Prime Minister Balsemao's visit to Washington next week comes at a time when Portuguese politics appear on the brink of a major realignment that threatens his job as well as the unity of the ruling Democratic Alliance coalition. Balsemao's political woes, in combination with Portugal's tight fiscal straits and pressure from the military, have led his government to push hard for increased assistance in the current negotiations with the US for a new defense cooperation agreement. [redacted]

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Balsemao will arrive on Tuesday, two days after nationwide local elections. The voting is the first broad sampling of opinion since the parliamentary election two years ago and will shape the tactics of the major political groups over the next several months.

[redacted]

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The Prime Minister's centrist Social Democratic Party is not likely to do well. He does not appear able to hold together the diverse constituencies of the Democratic Alliance. Although Balsemao pushed a major revision of the constitution through parliament and did a good job in handling Communist labor agitation earlier this year, his party and the government recently have been drifting.

[redacted]

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There is growing opposition to Balsemao in his own party, with the leftists even calling for a coalition with the Socialists. A poor showing by the party in the local elections would aggravate these tensions, and Balsemao could lose the top party job and the premiership at the Social Democrats' congress in February.

[redacted]

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By contrast, the conservative Social Democratic Center Party--the junior partner in the Alliance--has improved its public standing and is expected to do well in the balloting. Party leaders believe they are entitled to equal standing with the Social Democrats in the Alliance.

[redacted]

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In the absence of a new parliamentary election to substantiate this claim, neither Balsemao nor other Social Democratic leaders are likely to concede it. If the returns in towns where the two parties are in direct competition tend to favor the claim, the Alliance probably will come under serious strain. [redacted]

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The Socialist Party, the largest political grouping and the main opposition party, also is likely to make a strong showing. This probably would rekindle national aspirations in the party. [redacted]

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The Communists also are likely to fare well. This could prompt the Communist-dominated labor movement to offer tougher opposition to the government's economic policies. [redacted]

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Temporizing on the Economy

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Balsemao's shortcomings have been particularly evident in his management of the economy. Although he has opened the economy to more private enterprise, he has lacked the will or the ability to cut back on the oversized, costly public sector. [redacted]

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The Prime Minister also has kept Portugal's economic policies out of phase with those of its major trading partners, which have generally pursued constrictive, anti-inflationary policies over the past two years. As a result, both Portugal's budget deficit and its balance-of-payments situation have deteriorated substantially. [redacted]

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The austerity budget Balsemao announced last month is at best a temporizing step. Its reliance on tax increases rather than a public-sector cutback to balance the budget and its surcharge on imports are likely to perpetuate economic problems. [redacted]

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Security Issues

Balsemao's concern about his deteriorating political position probably has shaped his attitude toward the current negotiations to renew the Portuguese-US defense cooperation agreement, which expires in early February. He is pushing for increased US aid. [redacted]

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The Prime Minister is worried Portuguese legislators will take a hard look at the final text of the pact, which will be the first international military agreement submitted to them under the new constitution. Balsemao is particularly concerned, however, about the military's resentment over a recent constitutional revision and a new national defense law limiting its autonomy. As a result, he is looking for ways to fund equipment purchases needed for modernization. [redacted]

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To meet Portugal's NATO commitments, the armed services want continued modernization of the Army's NATO brigade, a second squadron of A-7 attack aircraft, and three new frigates. The frigates are in particular jeopardy, because Portuguese worries about unanticipated costs have delayed the start of construction to the point that the West German and Dutch Governments have threatened to withdraw their offers to contribute. [redacted]

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Outlook

The growing strains in the Social Democratic Party and in the Democratic Alliance suggest the government may collapse this winter. If a parliamentary election is held in the spring, it probably would produce a Socialist - Social Democratic coalition under Socialist leadership. [redacted]

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Although Balsemao would be likely to play a secondary role in such a government, his successors probably would continue his ineffectual economic policies. Moreover, if Balsemao falls from power soon, his likely successors would be under the same political and economic pressures to push the US and other NATO Allies hard on defense cooperation assistance. [redacted]
[redacted]

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